

**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GRAYSON COUNTY SHERIFF

**For The Year Ended
December 31, 2011**

The Auditor of Public Accounts has completed the Grayson County Sheriff's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$682 from the prior year, resulting in excess fees of \$51,762 as of December 31, 2011. Revenues increased by \$197,494 from the prior year and expenditures increased by \$196,812.

Report Comments:

- 2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2011-02 The Sheriff Should Improve Controls And Record Keeping System Over Drug Informant Activity
- 2011-03 The Sheriff Should Have Expended Funds For Allowable Purposes

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Logsdon, Grayson County Judge/Executive
The Honorable Rick Clemons, Grayson County Sheriff
Members of the Grayson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees -regulatory basis of the Sheriff of Grayson County, Kentucky, for the year ended December 31, 2011. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2012 on our consideration of the Grayson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Gary Logsdon, Grayson County Judge/Executive
The Honorable Rick Clemons, Grayson County Sheriff
Members of the Grayson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2011-02 The Sheriff Should Improve Controls And Record Keeping System Over Drug Informant Activity
- 2011-03 The Sheriff Should Have Expended Funds For Allowable Purposes

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Grayson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

October 18, 2012

GRAYSON COUNTY
 RICK CLEMONS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

Federal Grant - Office of Community Oriented Policing Services	\$	143,138	
Federal Fees for Services - Lake Patrol			21,280
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			25,734
State Fees For Services:			
Finance and Administration Cabinet	\$	104,100	
Cabinet for Health and Family Services		490	
Education and Workforce Development Cabinet		286	
Sheriff Security Services		22,838	127,714
Circuit Court Clerk:			
Fines and Fees Collected			17,373
Fiscal Court			26,763
County Clerk - Delinquent Taxes			25,981
Commission On Taxes Collected			356,849
Fees Collected For Services:			
Auto Inspections		5,925	
Serving Papers		42,480	
Carrying Concealed Deadly Weapon Permits		8,695	57,100
Other:			
10% Add-on Fees		65,000	
Prisoner Transport		542	
Due From 2012 Fee Account		10,124	
Miscellaneous/Accident and Police Reports		13,130	88,796
Interest Earned			549
Borrowed Money:			
State Advancement			210,393
Total Revenues			1,101,670

The accompanying notes are an integral part of this financial statement.

GRAYSON COUNTY
 RICK CLEMONS, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$	227,640
Bailiffs		90,979
Office Clerks		76,792
KLEFPF		19,582

Materials and Supplies-

Office Materials and Supplies		38,013
Uniforms		20,391

Auto Expense-

Gasoline		61,006
Maintenance and Repairs		21,005

Other Charges-

Conventions and Travel		2,978
Dues		660
Postage		11,933
Computer Service		5,303
Bond		2,982
CCDW		2,745
Miscellaneous		9,758
Cell Phone		6,836
Transporting		2,600
Federal Grant - Radios and Equipment		143,138
City of Leitchfield - Reimbursement		9,214
	\$	753,555

Debt Service:

State Advancement		210,393
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Total Expenditures		963,948
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Less: Disallowed Expenditures

Greeting Cards		31
Late Fees/Finance Charge		77
Lunch Meetings/Gifts		61
Pictures for 2011 Calendar		300
Gym Fee		10

Total Disallowed Expenditures		479
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Total Allowable Expenditures		\$ 963,469
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The accompanying notes are an integral part of this financial statement.

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

Net Revenues	\$ 138,201
Less: Statutory Maximum	<u>82,760</u>
Excess Fees	55,441
Less: Training Incentive Benefit	<u>3,679</u>
Excess Fees Due County for 2011	51,762
Payment to Fiscal Court - February 14, 2012	<u>35,000</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 16,762</u></u>

The accompanying notes are an integral part of this financial statement.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2011

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent for the first six months and 35.76 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 2. Employee Retirement System

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Grayson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Grayson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Fund Account

The Sheriff maintained a drug fund for drug related receipts and expenditures. The balance of the fund as of January 1, 2011 was \$11,997. During 2011, receipts of the drug fund were \$20,716 and expenditures were \$23,822 resulting in an ending balance of \$8,891 as of December 31, 2011 which is not available for excess fees.

Note 5. Drug Confiscation Account

The Sheriff maintained a drug confiscation fund for drug related receipts and expenditures. The balance of the fund as of January 1, 2011 was \$0. During 2011, receipts of the drug confiscation fund were \$27,705 and expenditures were \$6,375 resulting in an ending balance of \$21,330 as of December 31, 2011 which is not available for excess fees.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 6. Lake Patrol Account

The Sheriff maintained a Lake Patrol fund. The balance as of January 1, 2011 was \$0. During 2011, receipts of the Lake Patrol fund were \$21,280 and expenditures were \$21,200 resulting in an ending balance of \$80 as of December 31, 2011.

Note 7. Grant Account

The Sheriff maintained a grant fund for a US Department of Justice Community Oriented Policing Services Technology Grant. The balance of the fund as of January 1, 2011 was \$152,379 and expenditures were \$143,138 resulting in an ending balance of \$9,241 as of December 31, 2011, which is not available for excess fees.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Logsdon, Grayson County Judge/Executive
The Honorable Rick Clemons, Grayson County Sheriff
Members of the Grayson County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Grayson County Sheriff for the year ended December 31, 2011, and have issued our report thereon dated October 18, 2012. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Grayson County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as item 2011-01 in the accompanying comments and recommendations to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2011-02 to be a significant deficiency.

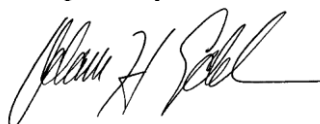
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Grayson County Sheriff's financial statement for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2011-03.

The Grayson County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Grayson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

October 18, 2012

COMMENTS AND RECOMMENDATIONS

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2011

FINANCIAL STATEMENT FINDINGS:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations

Our review and evaluation of the Sheriff's internal controls disclosed a lack of adequate segregation of duties. The bookkeeper collects receipts for the office in addition to preparing deposits, and preparing daily checkout sheets. Good internal controls dictate that the collection of receipts, recording of transactions, and bank reconciling duties be segregated. Documented compensating controls were not in place to offset this deficiency. We make the following recommendations to implement compensating controls:

The Sheriff or another employee who does not have access to bookkeeping records, cash receipts, cash disbursements, bank records, or statements should periodically:

- Examine the daily checkout sheet and agree to the deposit ticket, receipts, cash receipts ledger, and bank statement. Documentation may be evidenced by the reviewer initialing the aforementioned records noted.
- Compare the receipts and disbursements ledger to the monthly and quarterly reports and document comparisons.
- Monthly bank reconciliations should be reviewed and the review should be documented.
- Perform occasional surprise cash counts.

Any compensating controls implemented should be documented.

Sheriff's Response: Sheriff has already started implementing controls over segregation.

2011-02 The Sheriff Should Improve Controls And Record Keeping System Over Drug Informant Activity

While testing expenditures out of the Drug account, auditors noted that there were several instances of checks written to officers that had no documentation, and/or no case numbers for a total of \$1,125. Several signatures were missing where the informant should have signed. We recommend the Sheriff improve controls and record keeping over drug informant activity to ensure all checks written can be traced to a case number and documented properly.

Sheriff's Response: Have already implemented controls over drug account.

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2011
(Continued)

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2011-03 The Sheriff Should Have Expended Funds For Allowable Purposes

The Sheriff had disallowed expenditures of \$479 from his official fee account, \$305 from the drug account, and \$10 from the grant account. During the test of disbursements, auditors noted the Sheriff disbursed funds from these accounts for expenditures that lacked documentation, for finance charges and fees, and other items not necessary or beneficial to the public. In Funk vs. Milliken, 317 S.W.2d 499 (KY 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal expenses. The following is a detailed listing of those expenditures:

- \$479 - \$31 paid for greeting cards, \$77 paid in finance charges and late fees, \$61 expended on lunches and a gift, \$10 gym fee on a travel expense, and \$300 on pictures for a 2011 calendar and additional photos.
- \$305 - \$100 on an expenditure that lacked appropriate documentation and \$205 on Christmas cards.
- \$10 in late fees.

We recommend the Sheriff avoid expenses that do not meet the Funk v. Milliken test. We also recommend the Sheriff personally reimburse the 2011 official fee account for a total of \$479, the Drug account for a total of \$305, and the Grant account \$10.

Sheriff's Response: Sheriff is writing checks 10-18-12 to fee account and drug account.

